



# VIRGINIA WORKERS' COMPENSATION COMMISSION

## REPORT ON AUDIT FOR THE PERIOD JULY 1, 2011 THROUGH DECEMBER 31, 2014

Auditor of Public Accounts  
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## AUDIT SUMMARY

Our audit of the Virginia Workers' Compensation Commission for the period July 1, 2011, through December 31, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AGENCY HIGHLIGHTS

Virginia Workers' Compensation Commission (Commission) administers the Virginia Workers' Compensation Act and its related funds. Three commissioners appointed by the General Assembly head the agency, and they appoint an Executive Director to handle the daily operations. Twenty-four deputy commissioners hold evidentiary hearings throughout the Commonwealth to determine rights and liabilities of parties under the Act. The Commission consists of the following departments: Administration, Alternative Dispute Resolution, Claims Services, Correspondence Management, Criminal Injuries Compensation Fund, Electronic Data Interchange – Quality Assurance, Financial Services, Human Resources, Information Systems, Insurance, Judicial, Outreach Services, and Project Management.

The Commission uses the following funds to perform its responsibilities, which relate to program areas created and governed by specific statutes.

- The **Administrative Fund** pays the salaries, benefits, and other administrative expenses of the Commission. Funding comes from a workers' compensation tax assessed on both self-insured employers and insurance companies for insured employers with a maximum rate of 2.5 percent. Self-insured employers pay the tax based on a premium figure derived from their payrolls, while insurance companies pay a tax on all workers' compensation insurance premiums they receive from insured employers. The Commission sets this tax rate annually. The rate was 2.25 percent during fiscal years 2012 and 2013, while it increased to 2.50 percent during fiscal years 2014 and 2015.
- The **Uninsured Employer's Fund** provides benefits to injured workers of employers who did not secure adequate workers' compensation liability coverage. Funding comes from a workers' compensation tax assessed on self-insured employers and insurance companies for insured employers. The maximum statutory tax assessment rate is .25 percent and the Commission sets the actual tax rate annually. The General Assembly increased this maximum for a three year period to .50 percent that expires July 1, 2015. The rates for fiscal years 2012 and 2013 were .35 percent and the rate decreased to .20 percent in fiscal years 2014 and 2015, respectively.
- The **Criminal Injuries Compensation Fund** pays unreimbursed expenses of victims who suffer personal, physical, or emotional injury or death because of a crime, or to qualified survivors of a victim. Funding comes from fines assessed and collected by State courts, restitution, and a federal Victim of Crime Act Grant. The Commission administers the fund. The fund also pays for sexual assault forensic exams for victims of sexual assault. The Director of the fund manages the daily operations, while the Commissioners act as a governing board. The maximum per claim amount reimbursable by the fund is \$25,000.

The cash balances at year end for each of these funds is shown in the following table.

	2012	2013	2014
Administrative Fund	\$ 30,643,688	\$ 34,497,604	\$ 42,740,273
Uninsured Employer's Fund	4,308,287	5,449,639	4,750,816
Criminal Injuries Compensation Fund	15,947,238	16,888,814	18,315,746
<b>Total</b>	<b>\$ 50,899,213</b>	<b>\$ 56,836,057</b>	<b>\$ 65,806,835</b>

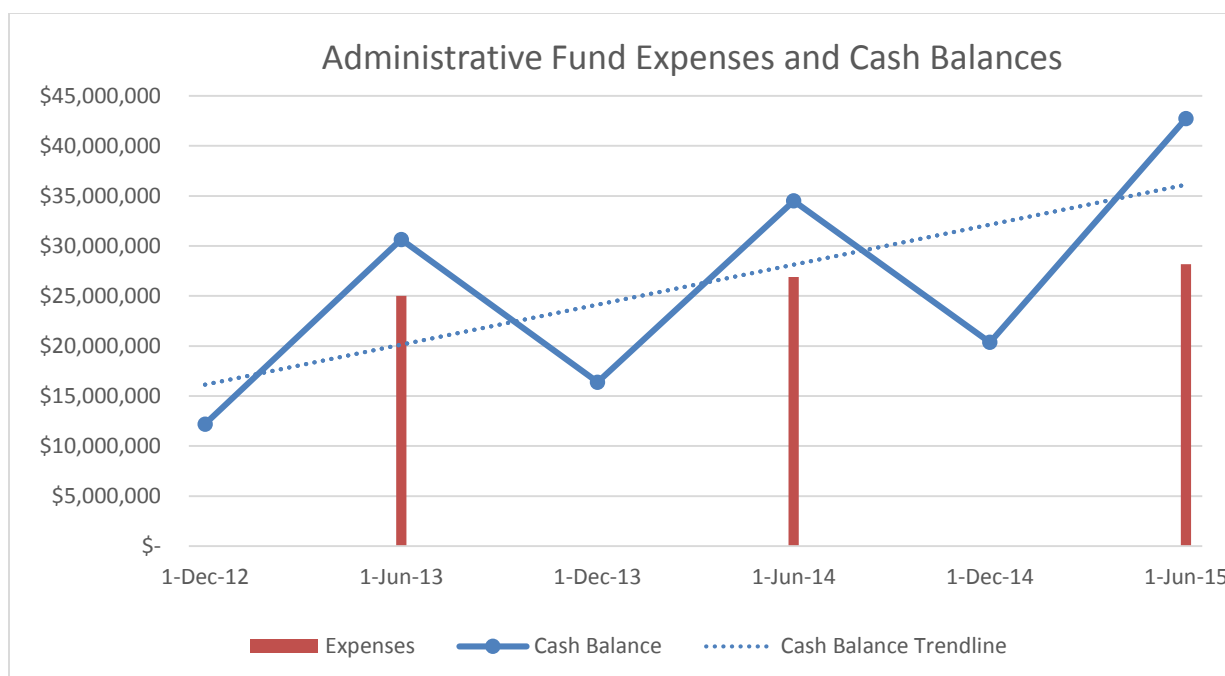
Source: Commonwealth Accounting and Reporting System

In addition to the funds mentioned above, the Commission also adjudicates the **Virginia Birth-Related Neurological Injury Fund** by hearing cases from individuals seeking benefits from the fund and making the final eligibility determination. A separate board operates and manages this fund to provide benefits to babies born in the Commonwealth with birth-related neurological injuries, and none of the financial activities of this separate board are part of the accounting records of the Commission.

Fund support comes solely through annual fees collected from doctors and hospitals that operate in the Commonwealth. Board members of the fund, appointed by the Governor, usually make the determination of the award amount and the fund manager issues the check. The Code of Virginia requires the State Corporation Commission to obtain periodic actuarial reports that assess the viability of the fund.

## FINANCIAL HIGHLIGHTS

As outlined in §65.2-1000 of the Code of Virginia, the Commission is authorized to collect tax premiums from both insurers and self-insurers in order to pay the salaries, benefits, and other administrative expenses of the Commission. Because the Commission sets the rate annually, cash collected by the Commission can fluctuate year to year based on the rate it establishes. The Code of Virginia limits the amount of surplus the Administrative Fund may accrue to one year's budgeted expenses within §65.2-1007 and §65.2-1008. Though the Commission budgets its expenses based on a fiscal year, it monitors its fund balances on a calendar year for reporting and tax assessment purposes. The Commission begins receiving tax assessment revenue in January of each year, with nearly all collections occurring by May, so fund balances are significantly lower on a calendar basis than a fiscal year basis. The following chart represents Administrative Fund cash balances and expenses over the audit period. The blue dotted line represents the rate of increase in the Commission's cash balances over the period.



Source: Commonwealth Accounting and Reporting System

The table below summarizes the Commission's expenses by major object code for the audit period. Personal services, transfer payments, and contractual services, respectively, represented 55, 24, and 14 percent of total expenses during 2012. Those percentages did not change significantly over the audit period. Personal services increased throughout the period as a result of adding more technology and data support positions. Variances in transfer payments are a result of changes in the Uninsured Employer's Fund, crime victim awards, and sexual assault forensic exam awards. Contractual services increased during 2013 due to the development of two significant administrative applications. Finally, equipment has increased over the audit period as a result of software upgrades, upgrades to server room HVAC, electrical, and fire suppression, data backup equipment purchases, and additional software licenses.

Major Object	2012	2013	2014
Continuous Charges	\$ 1,240,576	\$ 1,306,138	\$ 1,320,520
Contractual Services	4,916,333	5,442,694	4,807,536
Equipment	890,060	1,011,403	1,367,778
Personal Services	19,562,415	20,814,441	22,518,273
Plant and Improvements	-	94,670	-
Supplies and Materials	165,183	153,774	130,162
Transfer Payments	8,607,811	8,531,733	7,974,553
<b>Total</b>	<b>\$35,382,378</b>	<b>\$37,354,853</b>	<b>\$38,118,822</b>

Source: Commonwealth Accounting and Reporting System



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Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

August 21, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Workers' Compensation Commission** (Commission) for the period July 1, 2011, through December 31, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

## **Audit Scope and Methodology**

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Cash receipting and collections of accounts receivable  
Revenues, including taxes and federal grants  
Expenses, including payroll and contractual services  
Information system security  
System access controls

We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### **Conclusions**

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Commission has taken adequate corrective action with respect to audit findings reported in the prior year.

### **Exit Conference and Report Distribution**

We discussed this report with management on September 9, 2015.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

ZLB/clj



## AGENCY OFFICIALS

### VIRGINIA WORKERS' COMPENSATION COMMISSION

(As of June 30, 2015)

Roger L. Williams, Chairman

Wesley G. Marshall, Commissioner

R. Ferrell Newman, Commissioner

Evelyn McGill, Executive Director

Ed Rice, Chief Financial Officer

Amy Pearson, Assistant Financial Officer